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E.O. 12958: DECL: 04/22/2019
TAGS: [PREL](#) [ECON](#) [EFIN](#) [EAID](#) [EG](#)
SUBJECT: DEPUTY SECRETARY LEW'S APRIL 22, 2009
CONVERSATION WITH EGYPTIAN FINANCE MINISTER YOUSSEF
BOUTROS GHALI

[1](#)1. Classified by Acting NEA A/S Jeffrey Feltman.
Reasons: 1.4 (b) and (d).

[1](#)2. (C) Summary. Finance Minister Youssef Boutros Ghali conveyed that the GOE warmly welcomes the "palpable change in attitude and atmosphere" with the United States, and Deputy Secretary Lew underscored that the United States wants to be partners with Egypt even when we are "challenging each other to do better." Boutros Ghali admitted that he needs to be careful that Egypt's social investment agenda does not eclipse progress made on the budget deficit and described a fiscal stimulus plan that would not impose long-term costs. Lew urged Egypt to submit its vote for Kosovo's membership in the IMF and World Bank, which the Minister affirmed it had already done. Boutros Ghali advocated his views on reform of international financial architecture. Lew raised assistance to reassure the Minister we were seeking a way forward on ESF. End Summary.

Budgetary Challenges Amid Economic Crisis

[1](#)3. (C) Boutros Ghali commiserated with Lew about the challenges of pursuing a sustainable fiscal policy while addressing current economic challenges. Boutros Ghali admitted that while Egypt's potential for economic growth remains good despite declines in tourism, exports, and Suez canal revenues, he needs to be careful that the social agenda does not eclipse progress made on the budget deficit. He recounted how since 2004, he had reduced Egypt's budget deficit from 9.5 percent of GDP to around 6.2 or 6.3 percent expected this year. He conceded that the deficit would "inevitably" rise to 8 or 8.5 percent in 2010, primarily driven by Egypt's plans for a fiscal stimulus package comprised of discretionary infrastructure projects that would not recur in the budget. He characterized the infrastructure projects as a concession to stave off pressure to increase government salaries so that the deficit increase is not permanent. However, he said it would take three to four years before he could lower the deficit to three or four percent of GDP again.

[1](#)4. (C) Egypt's debt to GDP ratio, Boutros Ghali continued, has dropped from 107 percent to 67 percent since his appointment, driven by GDP growth and also affected by a bout of exogenous inflation due to fuel prices. Boutros Ghali said he used the opportunity to raise the energy price, and that has increased government revenues.

[1](#)5. (C) Boutros Ghali believed Egypt has experienced the financial crisis on a six to eight month lag, and he thought he saw indications it was bottoming out in Egypt. He expected to make a projection on 2009 GDP

growth soon, after the current quarter results are in and he had a better idea whether it would be three or four percent. He expected unemployment to rise despite the fiscal stimulus. However, he noted the stimulus was having a positive impact on the construction sector and hoped it could increase Egypt's annual GDP growth potential by a full percentage point. He explained that Egypt's industrial cities are not located near population centers, causing labor shortages, and so Egypt is building railway and road links to ease transportation and so improve GDP growth potential.

Vote for Kosovo Done

¶16. (C) Lew urged Egypt to support Kosovo's application for IMF and World Bank membership. Boutros Ghali replied they had already voted for it.

Changing International Financial Architecture?

¶17. (C) Boutros Ghali reported that he would discuss with Treasury Secretary Geithner the reform of international financial architecture, particularly the role of the G-20. Lew thought there was a need for multiple fora to ensure an appropriate venue for the array of issues under discussion. Boutros Ghali argued that the international community faced a choice: either to maintain many fora at equal level of importance, or channel discussions into one existing legitimate institution like the IMF. He informed Lew that while the IMF and World Bank were beginning to play a stronger role, they were competing with the G-20.

¶18. (C) Lew pointed out that there are key differences between the two: the IMF can set and monitor financial performance standards, provides financial benefits to those who complete their programs, and does not take on political issues. Boutros Ghali clarified that he would like to see the IMF reflect the inclusiveness of the G-20, whereas the G-20 should concentrate on the political side and take on more formality like the IMF. Currently, he pointed out, there is no mechanism for decision making in the G-20 if they cannot reach consensus.

¶19. (C) Lew noted that voice and quota reform would be on the agenda during the spring Bank/Fund meetings. The Minister responded that he detected resistance in IMF staff to it. He said the 250 billion Special Drawing Rights (SDR) allocation was fine for now, but that a recapitalization would be needed in the future. Lew wondered, however, whether diluting shares in the IMF might complicate recapitalization in the future, particularly for other capital contributors besides the United States. The Minister argued that the best (but also most difficult) time for reform was during a crisis.

Foreign / Finance Ministry Tension on Assistance

¶10. (C) Lew raised assistance and mentioned that the United States understood some aspects of our assistance were difficult for Egypt, but that the Secretary was working to get a mutually agreeable level. Boutros Ghali was dismissive of the problem and pointed to "tiny problems" that had affected the bigger picture. Ambassador Shoukry then spoke up to note that while we were close to resolution, it had not yet been reached. He told Lew we need to come to a definitive decision before the FY 2010 budget is public. Lew summarized that we were looking at ways to increase ESF and that consultations with Egypt were important in advance of

the budget hearings. He noted that the U.S. had heard and acted upon Egypt's request for a consultative process with regards to mutual priorities. He cautioned that the current environment for foreign assistance is not ideal, as U.S. unemployment is high and much of the nation is focused inward, making it important to make a strong case in arguing for more resources for international programs.

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